

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 SP-02 USIA-15 AID-05 NSC-05

TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 AGRE-00 FEA-01 MMO-04 A-01 /101 W

-----121938 281516Z /43

R 261407Z NOV 77

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 8419

UNCLAS SECTION 1 OF 2 KINGSTON 7075

E.O. 11652: N/A

TAGS: EFIN, JM

SUBJECT: JAMAICA'S BALANCE OF PAYMENTS

THIS ANALYSIS IS PART OF A COMPREHENSIVE MACRO-ECONOMIC ANALYSIS CURRENTLY UNDERWAY. IT WILL FOCUS ON THE BALANCE OF PAYMENTS CRISIS OF 1976-77 AND ITS MAJOR CAUSES:

1. THE COUNTRY'S OVERALL BALANCE OF PAYMENTS DEFICIT INCREASED FROM UNDER J\$40 MILLION IN 1973 TO J\$69 MILLION IN 1974 AND TO A PEAK OF J\$234 MILLION IN 1976 (SEE TABLE 1 LINE G). FACTORS ON BOTH THE CURRENT AND CAPITAL ACCOUNTS ARE RESPONSIBLE FOR THE CRISIS THAT BROKE IN 1976.

2. AFTER MORE THAN DOUBLING BETWEEN 1973 AND 1975, EXPORTS DECLINED BY 19 PERCENT IN 1976 OWING MAINLY TO THE SHARP BREAK IN SUGAR PRICES AND TO THE DECLINE IN ALUMINA EXPORTS ASSOCIATED WITH HIGH U.S. INVENTORIES AND THE U.S. RECESSION.

3. A SECOND CONTRIBUTORY FACTOR TO THE CURRENT ACCOUNT DEFICIT WAS THE SUBSTANTIAL DECLINE IN NET TOURISM - FROM J\$90 MILLION IN 1973 AND 1974 TO ONLY J\$43 MILLION IN 1976. THIS DEVELOPMENT IS RELATED TO A NUMBER OF UNCLASSIFIED

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FACTORS INCLUDING, AT DIFFERENT TIMES, THE U.S. RECESSION, REPORTS OF VIOLENCE AND DISORDERS, HIGH CRIME RATES AND HIGH PRICES.

4. IMPORTS ROSE BY 70 PERCENT BETWEEN 1973 AND 1975 PARTLY AS A RESULT OF THE QUADRUPLING IN OIL PRICES AND OF THE RAPID INCREASE IN PERSONAL CONSUMPTION EXPENDITURES.

HOWEVER, THE IMPOSITION OF A SYSTEM OF TIGHT IMPORT LICENSING AND FOREIGN EXCHANGE CONTROL CAUSED IMPORTS TO DECLINE BY 18 PERCENT (IN CURRENT PRICES) BETWEEN 1975 AND 1976. THESE MEASURES ARE EXPECTED TO CAUSE ANOTHER DECLINE IN IMPORTS IN 1977.

5. THE CAPITAL ACCOUNT SHOWS A DRASTIC DECLINE IN NET PRIVATE FOREIGN INVESTMENT, DOWN FROM A PEAK OF J\$139 MILLION IN 1974 TO A MINUS J\$30 MILLION IN 1976 (TABLE 1, LINE F), AS A RESULT OF UNCERTAINTIES INDUCED BY GOVERNMENT POLICIES, INCLUDING NATIONALIZATION AND IMPORT CONTROLS, AND AS A RESULT OF JAMAICA'S WORSENING CREDIT STANDING.

6. THUS, JAMAICA'S BALANCE OF PAYMENTS DIFFICULTIES ARE PARTLY DUE TO FACTORS OVER WHICH THE GOVERNMENT HAS NO CONTROL (E.G. LOWER SUGAR PRICES IN 1976, LOWER SALES OF ALUMINA AND THE INCREASE IN OIL PRICES OVER 1973-75), AND PARTLY TO FACTORS THAT APPEAR TO BE THE DIRECT, ALBEIT UNINTENDED, OUTCOME OF GOVERNMENT POLICY (E.G. PRIVATE CAPITAL OUTFLOWS).

7. THE BALANCE OF PAYMENTS SITUATION IS HAVING A MAJOR IMPACT ON THE STANDARD OF LIVING. THE TOUGH SYSTEM OF IMPORT LICENSING AND EXCHANGE CONTROLS FORCED IMPORTS DOWN FROM J\$881 MILLION IN 1975 TO J\$720 MILLION IN 1976  
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IN 1976, AND ARE EXPECTED TO DECLINE FURTHER TO A RANGE OF J\$660-J\$700 MILLION IN 1977. THESE FIGURES ARE IN CURRENT PRICES. THE REDUCTION IN THE PHYSICAL VOLUME OF IMPORTS THEY IMPLY IS SUBSTANTIALLY GREATER.

8. THE GOVERNMENT'S LATEST BALANCE OF PAYMENT PROJECTION FOR 1977 (IDENTICAL TO THE ONE PREPARED FOR THE IMF) SHOWS A SUBSTANTIAL IMPROVEMENT OVER THE 1976 LEVEL (SEE LAST COLUMN OF TABLE 1). EXPORTS ARE PROJECTED TO INCREASE BY 21 PERCENT AND IMPORTS TO DECLINE BY 9 PERCENT. IN LIGHT OF BOTH EXPORT AND IMPORT PERFORMANCE OVER JANUARY - JUNE 1977 COMPARED WITH THE SAME PERIOD LAST YEAR (SEE TABLE 2), WE BELIEVE THAT ACTUAL PERFORMANCE WILL NOT FALL FAR SHORT OF MEETING THE TARGETS. NOTE THAT EXPECTATIONS WITH RESPECT TO PRIVATE INVESTMENT AND TOURISM REMAIN LOW. THE OVERALL BALANCE OF PAYMENTS DEFICIT IS PROJECTED TO DECLINE FROM J\$234 MILLION IN 1976 TO J\$51 MILLION IN 1977 (LINE G OF TABLE 1). WITH THE HELP OF THE SPECIAL CAPITAL INFLOWS (EMERGENCY ASSISTANCE FROM IMF, VENEZUELA, AID ETC.), FOREIGN EXCHANGE RESERVES ARE PROJECTED TO INCREASE BY J\$30 MILLION THIS YEAR (TABLE 1, LINE I).

9. OFFICIAL GROSS FOREIGN EXCHANGE RESERVES DECLINED FROM J\$176 MILLION AT THE END OF 1974 TO ONLY J\$36 MILLION DECEMBER 31, 1976 AND ARE PROJECTED TO RISE TO J\$66 MILLION IN 1977. JAMAICA'S NET FOREIGN ASSETS DECLINED FROM J\$145 MILLION IN 1974 TO A MINUS J\$170 MILLION ON DECEMBER 31, 1976.

10. IN CONCLUSION: JAMAICA'S BALANCE OF PAYMENTS PROBLEMS REACHED THE CRISIS POINT IN 1976. ITS MAIN PROXIMATE CAUSES ARE THE DECLINE IN SUGAR AND ALUMINA EXPORTS, TOURISM RECEIPTS AND THE PRIVATE CAPITAL OUTFLOWS. WHILE A SUBSTANTIAL IMPROVEMENT IN BOTH ITS BALANCE OF PAYMENTS AND RESERVE POSITIONS IS FORESEEN FOR 1977, IT MUST BE BORNE IN MIND THAT THIS IMPROVEMENT WAS UNCLASSIFIED

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PURCHASED, IN PART, THROUGH SPECIAL ECONOMIC ASSISTANCE AND THROUGH THE SUBSTANTIAL REDUCTION IN IMPORTS INDUCED BY THE IMPORT LICENSING SYSTEM. THE FORCED REDUCTION IN IMPORTS HAS TAKEN ITS TOLL IN DECLINING GNP, RISING UNEMPLOYMENT AND EMPTY STORE SHELVES.

1. SQUEEZING IMPORTS IS CLEARLY NO LONG-TERM SOLUTION. THE FUNDAMENTAL CAUSES OF THE PROBLEM -- UNDIVERSIFIED EXPORTS, LACK OF BUSINESS CONFIDENCE, FEAR OF VIOLENCE AND CRIME, THE RAPID UPWARD TREND IN CONSUMPTION EXPENDITURES, AND WAGE INCREASES OUTRUNNING PRODUCTIVITY GAINS -- REMAIN TO BE ADDRESSED.  
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ACTION EB-08

INFO OCT-01 ARA-14 ISO-00 SP-02 USIA-15 AID-05 NSC-05  
TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00  
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LAB-04 SIL-01 AGRE-00 FEA-01 MMO-04 A-01 /101 W  
-----121979 281515Z /43

R 261407Z NOV 77  
FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 8420

UNCLAS SECTION 2 OF 2 KINGSTON 7075

## JAMAICA'S BALANCE OF PAYMENTS - 1973 - 1977(TABLE 1)

	J\$ MILLION					
PROJECTED	1973	1974	1975	1976	1977	
A. MERCHANDISE	-161.2	-106.9	-144.8	-119.9	70	
EXPORTS (F.O.B.)	357.2	630.7	736.7	599.7	727	
IMPORTS (F.O.B.)	518.4	737.6	881.5	719.6	657	
B. SERVICES (NET)	- 27.1	- 66.2	-136.0	-160.7	-156	
FOREIGN TRAVEL	90.4	88.6	69.3	42.6	55	
INVESTMENT INCOME	- 52.8	- 61.5	- 93.5	-105.1	-113	
OTHER	- 64.7	- 93.3	-111.8	- 98.2	- 98	
C. GOODS & SERVICES (NET)	-188.3	-173.1	-280.8	-280.6	- 86	
UNILATERAL						
D. UNREQUITEE TRANSFERS (NET)	24.0	21.3	23.8	5.4	16	
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PRIVATE	30.7	29.6	19.1	1.8	12	
OFFICIAL	- 6.7	- 8.3	4.7	3.6	4	
E. CURRENT ACCOUNT BALANCE	-164.3	-151.8	-257.0	-275.2	- 70	
F. NET CAPITAL MOVEMENTS	124.7	221.1	189.9	41.5	19	
OFFICIAL	33.4	81.9	112.9	72.0	32	
PRIVATE	91.3	139.2	77.0	- 30.5	- 13	
G. TOTAL A THROUGH F	- 39.6	69.3	- 67.1	-233.7	- 51	
H. SPECIAL INFLOWS	-	-	-	-	81	
I. CHANGE IN RESERVES(GROSS)						
(INCREASE - #)	- 27.7	# 54.1	- 73.6	-240.5	# 30	

SOURCE: BANK OF JAMAICA

TABLE 2  
J\$ MILLION

	JAN.-JUNE 1976	JAN.-JUNE 1977
CURRENT ACCOUNT	-168.4	-19.5
EXPORTS (F.O.B.)	262.9	342.4
BAUXITE	51.4	58.1
ALUMINA	116.9	165.5
SUGAR	33.3	46.4
BANANAS	6.7	6.4
OTHER	54.6	66.0
IMPORTS (C.I.F.)	411.3	345.9
FOOD (SITC 0)	78.2	68.3
SERVICES & TRANSFERS (NET)	-20.0	-16.0
CAPITAL ACCOUNT	60.0	44.1
OFFICIAL	49.5	11.1
PRIVATE	10.5	55.2
CHANGE IN RESERVES (INCREASE - #)	-108.4	#24.6

SOURCE: THE MONTHLY REVIEW  
BANK OF JAMAICA, SEPT. 1977  
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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009